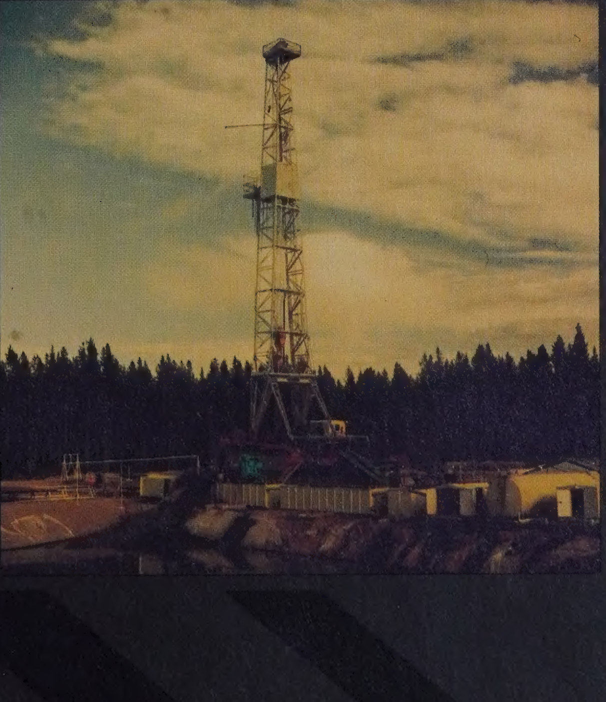
Bridger Petroleum Corporation Ltd.
1975 Annual Report



REMINDER

Shareholders who have not yet exchanged their Houston shares for Bridger shares are reminded to forward the Houston shares to The Canada Trust Company, 239 Eighth Avenue, S.W., Calgary, Alberta T2P 1B9.

inside

B.P.C. **Bridger Petroleum Corporation Ltd.**

and Subsidiary Companies

1975 highlights

- Oil and gas sales, after royalties, increased 120% to $3,491,961.
- Cash flow from operations was $2,195,930 or 56¢ per share.
- Net income was $589,108 or 15¢ per share.
- Company shareholders approved a one for two share consolidation and a name change from Houston Oils Limited to Bridger Petroleum Corporation Ltd.
- 61 gas wells and 2 oil wells completed, equivalent to 23.9 net wells.
- Proven gas reserves increased 37% to 88.6 billion cubic feet.
- Hairy Hill, Alberta gas plant completed with a capacity of 48 million cubic feet of gas per day.

HAIRY HILL GAS PLANT

report to the shareholders

This past year's activities were highlighted by increased oil and gas revenues and a corporate reorganization. The additional revenues resulted from increased production and higher prices. A share consolidation and change of name to Bridger Petroleum Corporation Ltd. was approved by a 99.38% vote of shareholders. The results in this report include the activities of the Company and its subsidiaries, and the comparative figures quoted throughout have been adjusted to reflect the one for two share consolidation.

Oil and gas revenue for 1975, after royalties, increased 120% to $3,491,961 and provided a cash flow from operations of $2,195,930 or 56¢ per share compared with $624,081 or 16¢ per share in the previous year. Net income for the year was $589,108 or 15¢ per share compared with a loss, before provision for loss in value of marketable securities, of $156,526 or 4¢ per share.

Oil and gas revenues are expected to increase substantially in 1976, due to additional properties going on stream and the effect of the Alberta gas price increase on November 1, 1975 together with anticipated higher prices being negotiated on the Oklahoma gas production.

Net oil production for the year was 186,259 barrels, averaging 510 barrels per day which was down 13% from the previous year. The forecast for 1975 was 1,100 barrels per day, before royalty, however the sale of two oil producing properties together with lower allowables caused the reduction. Property sales also reduced our proven oil reserves. Net gas production was 3.4 billion cubic feet for an average of 9.3 million net cubic feet per day which was an increase of 71% over the previous year. Please note that we are now quoting in net production after royalty whereas in previous reports we have reported production rates before royalty deductions.

During the year the Company participated in the drilling of 109 exploratory and development wells, of which 61 were completed as gas wells, two as oil wells and 46 were abandoned as dry holes. The Company's overall success ratio for the year was 57.7% as compared to 46.6% last year.

Exploration and development continued to be concentrated in two primary areas. In Canada, shallow gas exploration was highly successful in the Hairy Hill-Hollow Cossack area of Alberta where at year end the Company had an interest in 10 producing gas wells. Gas from this area was placed on production in June. At year end the Company had 18 producing gas wells and two producing oil wells in Beaver County, Oklahoma, the Company's other primary area of development.

Bridger's exploration and development plans for its 1976 fiscal year include approximately 90 wells of which 66 will be drilled in Alberta and 24 in the U.S. All but seven of these will be gas tests. The total cost of this exploration program together with development and capital costs for placing new gas on production and other corporate expenses will amount to approximately $6,000,000. These expenditures will be offset by the combination of increased cash flow from operations, the proceeds from property sales and/or bank financing.

This past year the Company made the decision to sell its producing properties in Manitoba, British Columbia and Saskatchewan as well as several of its less productive properties in Alberta. The Company also elected to reduce its foreign exploration activities due to spiralling costs and political uncertainties which have significantly increased the business risk. In addition to selling its interest in Abu Dhabi, the Company intends to sell, farmout or relinquish its interests in other foreign areas. Proceeds from property sales during the year amounted to $1,414,911 and are expected to be approximately $2,000,000 during the coming year.

ACKNOWLEDGMENT
During the year, Mr. Jack L. Cummings resigned as a Director of the Company. On behalf of the shareholders we wish to extend our sincere thanks for his service to the Company and at the same time welcome Mr. Harvey S. Robinson, our Executive Vice President, to the Board of Directors.

United States exploration and development in the coming year will consist of the completion of the Beaver County, Oklahoma project and a multi-well program in Major and Garfield Counties, Oklahoma. We also have a 6.25% working interest in a 22,000 foot test to be drilled in Fort Bend County, Texas. This wildcat will be drilled on a large geophysical anomaly covering most of a 12,000 acre lease block. Since the Company has established a good revenue base in the U.S. it now plans to concentrate more on oil and gas prospects which will have larger reserve potential.

The Company's real estate investment at Lewisville, Texas has proven to be discouraging to date. The Xerox Corporation has not begun construction of its manufacturing facility on lands adjoining the Bridger tract nor has it announced when it will commence building. The construction of this facility should greatly enhance the value of the Company's acreage; however, due to its uncertainty, Management is looking at this investment and its carrying cost very carefully. We are also considering a recommendation by the Company's Dallas attorneys that a suit be filed against Xerox on the grounds that it has not fulfilled its obligation to Bridger.

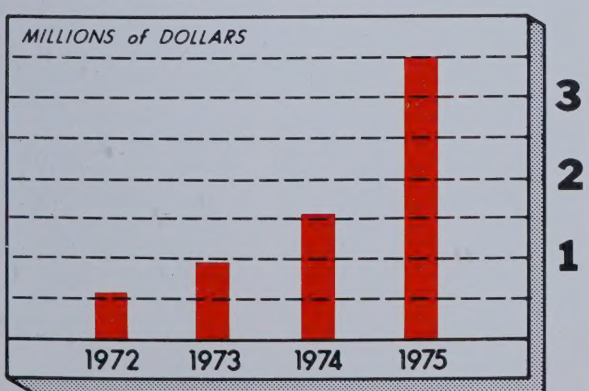
Management is of the opinion that Bridger's emphasis on gas exploration in Canada and the United States provides excellent growth potential and will result in continued increases in revenues for the Company.

The efforts and dedication of the Company's excellent staff in Calgary and Dallas have played a vital role in the growth of the Company and management wishes to express its appreciation.

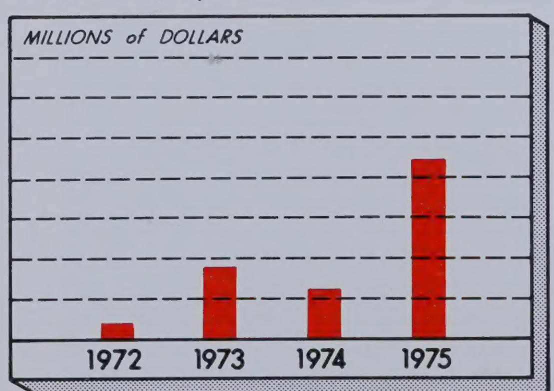
ON BEHALF OF THE BOARD

A. E. Whitehead,
President

Oil & Gas Revenue, Net of Royalties



Cash Flow from Operations



exploration and development

A total of 109 wells were drilled by the Company during 1975 of which 63 were completed for production (61 gas, 2 oil) equivalent to 23.9 net completions and a 57.7% success ratio; 46 of the tests were dry holes and were abandoned. Several of the successful gas wells in both Alberta and Oklahoma were placed on production which, along with higher prices contributed to an increase of 120% in oil and gas revenue to $3,491,961. During 1976 we will continue to emphasize exploration and development of gas prospects in both Canada and the United States but will reduce activity in foreign projects. This program with its particular emphasis on gas, will continue to generate a further strong increase in 1976 revenues as additional wells and plants currently planned and under construction are placed on production.

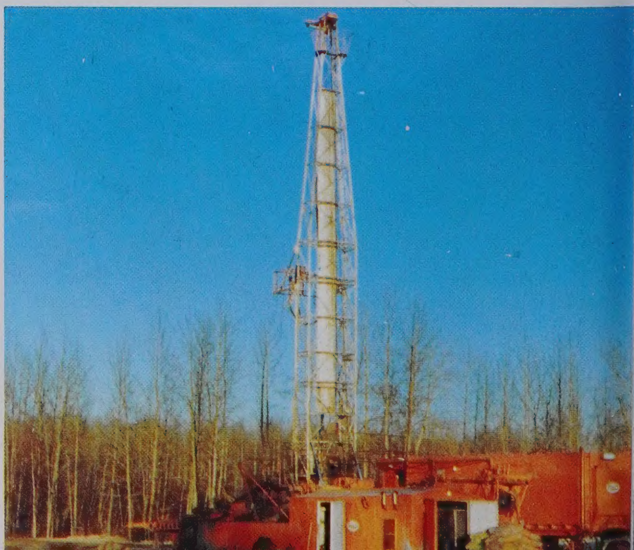
CANADA — ALBERTA

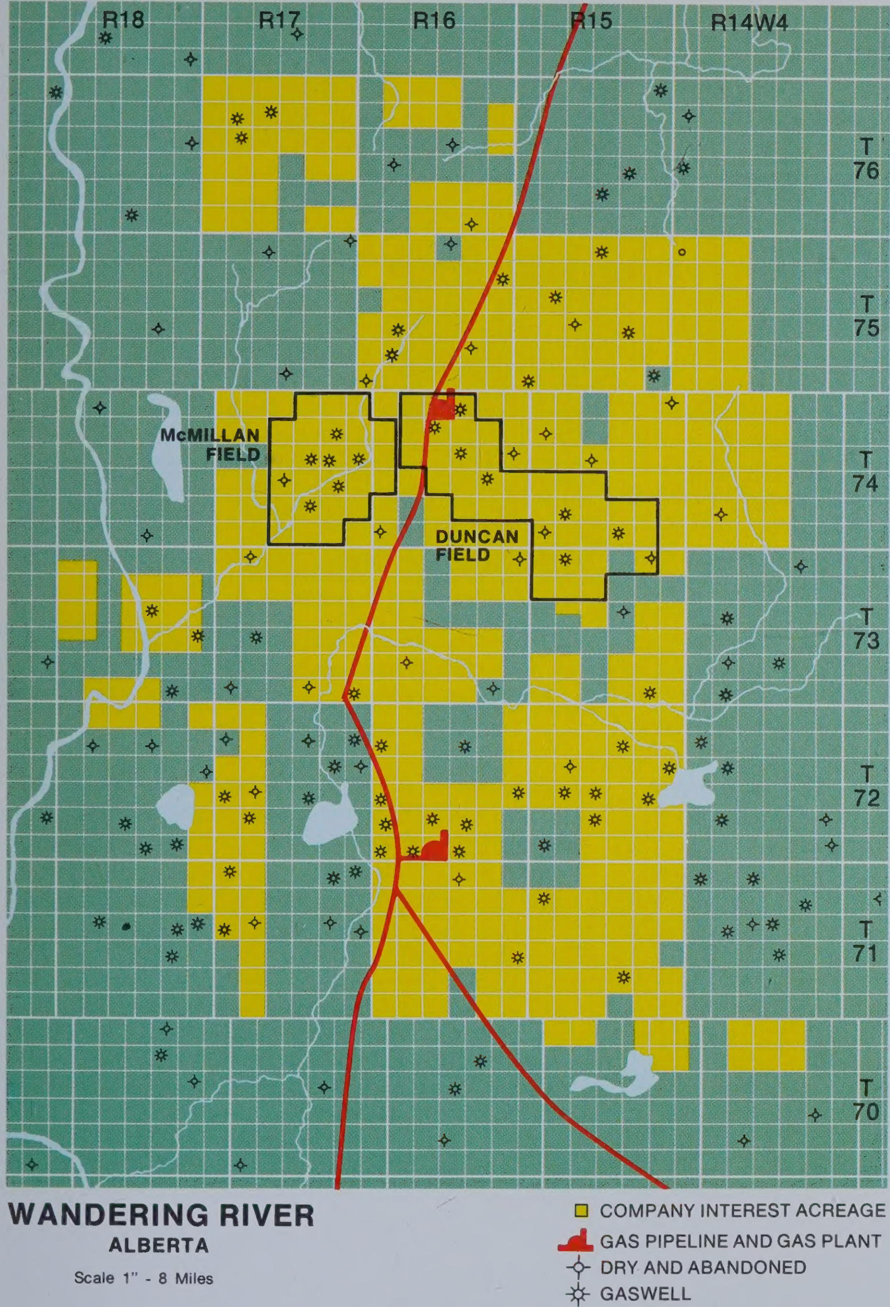
Exploration and development activity in Canada was concentrated on shallow gas in the Hairy Hill-Hollow Cossack area of east central Alberta, the Wandering River area of northeastern Alberta and Matziwin-Verger area of southeastern Alberta.

Hairy Hill - Hollow Cossack — During the past three years of exploration and development in this area, the Company has drilled a total of 44 test wells of which 33 were completed as gas wells and 11 were dry holes for a success ratio of 75%. Drilling depths are less than 2,500 feet and several of the gas wells have been completed with open flow potentials above 20 million cubic feet of gas per day with one well having 72 million cubic feet per day.

As a result of this initial exploration success, a gas plant was constructed at Hairy Hill and several wells were placed on production in June. At year end 50% of the 30 million cubic feet daily flow through the plant originated from 10 of our wells in which the Company's share was approximately 2.5 million cubic feet per day. The plant is expected to be at capacity of 48 million cubic feet per day in November when the cold weather arrives. The Company's share will then be approximately 3.5 million cubic feet per day.

At the same time as the Hairy Hill plant was being built, exploration activities in the area were expanded. Additional lands were acquired through farmins from other companies, and leases were acquired from private mineral owners and the Government of Alberta. As a result, the Company now has varying interests in approximately 550,000 acres in this area and is planning a very active exploration and development program during the coming year. This program will include approximately 40 exploratory and development tests, and the construction of at least one more gas plant.





Wandering River — The Company has varying interests in 48 gas wells and approximately 317,000 gross acres of leases in this prospect; its working interest in most of the major gas reserves is 30%. In April, a gas contract was signed with Sun Oil Company and construction of compression and plant facilities commenced in September. Pipelines will be installed after freeze-up and gas production is expected to begin in April, 1976, which will provide revenue during the latter half of the 1976 fiscal year. The gas contract on these reserves provides for a minimum daily delivery of 27 million cubic feet per day and a maximum of 33 million cubic feet, of which Bridger's share on the average basis is expected to be approximately 8 million cubic feet per day. Based on this rate, this property will generate approximately $2,600,000 in gross revenues or approximately $1,300,000 net revenue to the Company on a yearly basis.

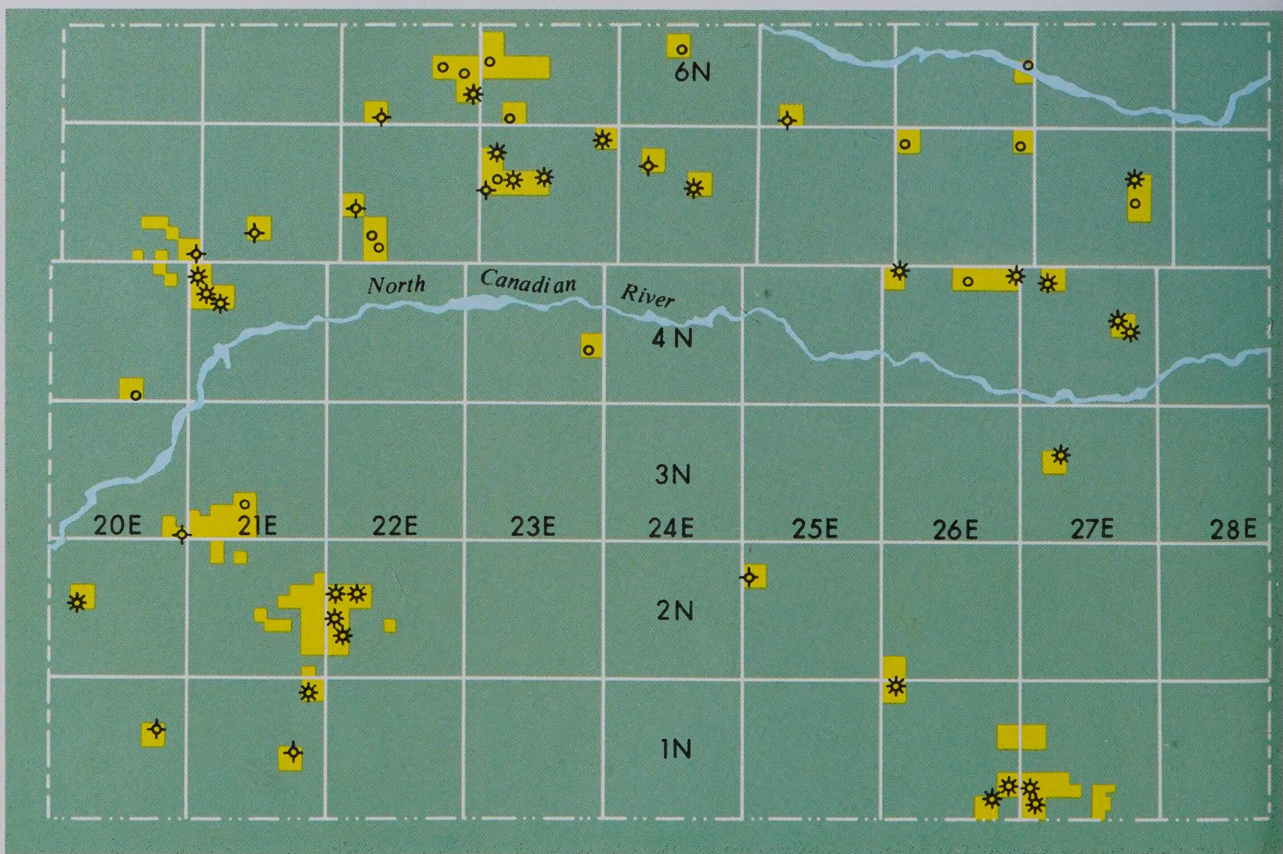
A large amount of the land in this project still remains to be explored. Therefore, we are planning to drill about 12 wells this coming winter of which one-half will be exploratory and one-half will be development.

Matziwin-Verger — The Company has a 23.125% working interest in 13,760 acres and seven gas wells on this prospect. Drilling operations conducted during the year indicate the entire block to be underlain by Milk River and Medicine Hat sands at 1,250 feet and 1,850 feet respectively. Gas has also been established in three deeper zones in two wells. Plans were approved by all participants in this project and drilling operations on a further 20 well development program commenced in October, 1975. The gas is contracted to Consolidated Natural Gas Limited, and production is expected to commence in early 1976.

UNITED STATES

Bridger Petroleum Corporation, the Company's wholly owned U.S. subsidiary, has increased its staff in Dallas to 10 and has been operational for just over a year. The staff is now concentrating on new exploration prospects with large reserve potential.

Oklahoma — A total of 26 wells were drilled by the Company in the Beaver County project during 1975 which resulted in 15 gas wells and two oil wells. The total wells which have been drilled on this project is 49, with 25 resulting in gas wells and 3 resulting in oil wells. At



BEAVER COUNTY
OKLAHOMA
Scale 1" - 8 Miles

COMPANY INTEREST ACREAGE

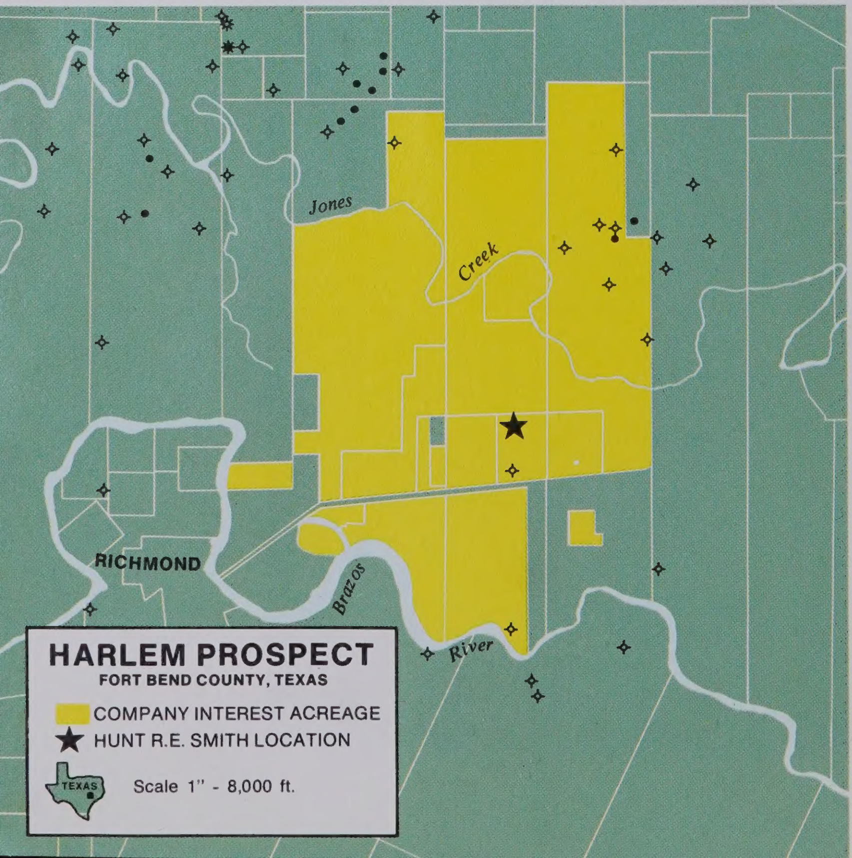
year end 20 wells were producing 11.8 million cubic feet of gas and 235 barrels of oil and condensate per day while eight wells were being completed or were shut-in awaiting a pipe line connection. The Company has another four wells to drill in this project before it is completed. The gas reserves established by this program are not long term reserves and we expect the life of a majority of the wells to be no more than 12 years. However, this program has been successful from the standpoint of establishing a good income base from which the Company can carry out its U.S. operations.

Rocky Mountain Area — During 1975, four rank wildcats were drilled on prospects in Montana and Utah, all of which resulted in dry holes. Also in Montana at Tiger Ridge-Sherard, where the Company's gross gas production during the year averaged 2.2 million cubic feet per day, 23 exploratory and development tests resulted in 12 gas wells and 11 abandonments. In 1976, additional gas revenues are forecast through increased prices and the drilling of several additional test wells.

In southeastern Wyoming, the Company has a 50% working interest in approximately 82,000 acres of leases. Two small oil wells have been completed on lands offsetting this block and other operators have scheduled several tests near our acreage. This is an attractive exploratory type prospect and our plans are to conduct additional geological studies and await the results of the nearby wildcats. Lease blocks have also been assembled on five prospects in Montana and we will attempt to test these by drilling during the coming year.

Gulf Coast - Texas — The Company is participating in a 22,000 foot exploratory test which is being drilled on a 12,000 acre lease block in Fort Bend County some 14 miles southwest of Houston. Bridger has a 6.25% working interest in this prospect which overlies a deeply buried salt dome and is being compared to the Katy Field located about 12 miles to the northwest. Katy has recoverable gas reserves of about 5 trillion cubic feet. Hunt Oil Company is the operator of this wildcat which is expected to take six months to drill.

In other areas of Texas and Mississippi, the Company has additional exploratory prospects on which lease blocks have been and are being assembled. We anticipate drilling at least two more exploratory tests in these areas during 1976 and will continue to originate and acquire further prospects.



FOREIGN

Our exploratory efforts and expenditures on foreign concessions have been significantly reduced through sale, farmout and surrender. No new acquisitions are being considered.

Dutch North Sea — Seismic evaluation of Block E-7, in which the Company has an 11.58% working interest is complete and several anomalies defined. During the year efforts were made to negotiate a trade with the holders of permits adjoining Block E-7, without success. Therefore, the participants in E-7 have now decided to attempt to bring in another company or companies to test one or more of the anomalies. On Block Q-11, in which the Company has a 4.5% working interest, additional seismic work has been carried out with the results still being interpreted at year end.

Spain — Additional seismic work was carried out in the Gulf of Cadiz where the Company had a 33-1/3% working interest in 376,224 acres. The results, however, proved discouraging and the decision was made to surrender the four exploration blocks in December.

Indonesia — Three dry holes were drilled on the Strait of Malacca concession bringing the total number of dry holes to six that have now been drilled. ARCO, as operator on this project, is attempting to interest other companies in doing additional exploratory work on this 8,000,000 acre concession in which we have a 4.33% working interest.

Abu Dhabi — Consistent with its new policy to concentrate on North American exploration, the Company elected to sell its 5% interest in the Abu Dhabi offshore concession.

MINERAL EXPLORATION

Exploration for minerals was continued on a very limited basis through Aquarius Mines Ltd., in which we have a small equity, as well as participation in the Southern Ventures Mining Syndicate and the DNBB Limited Partnership. At year end, the Company and its partners in the two small Colorado uranium-vanadium mines were considering purchase offers for outright sale of these mines.

Aquarius confined most of its exploration to uranium and gold prospects in Western Canada and although it has acquired claim blocks on several interesting prospects, much exploration work remains to be carried out to determine their value. Southern Ventures continued to concentrate its Australian exploration on uranium prospects and while some drilling was done, no economical deposits were located.

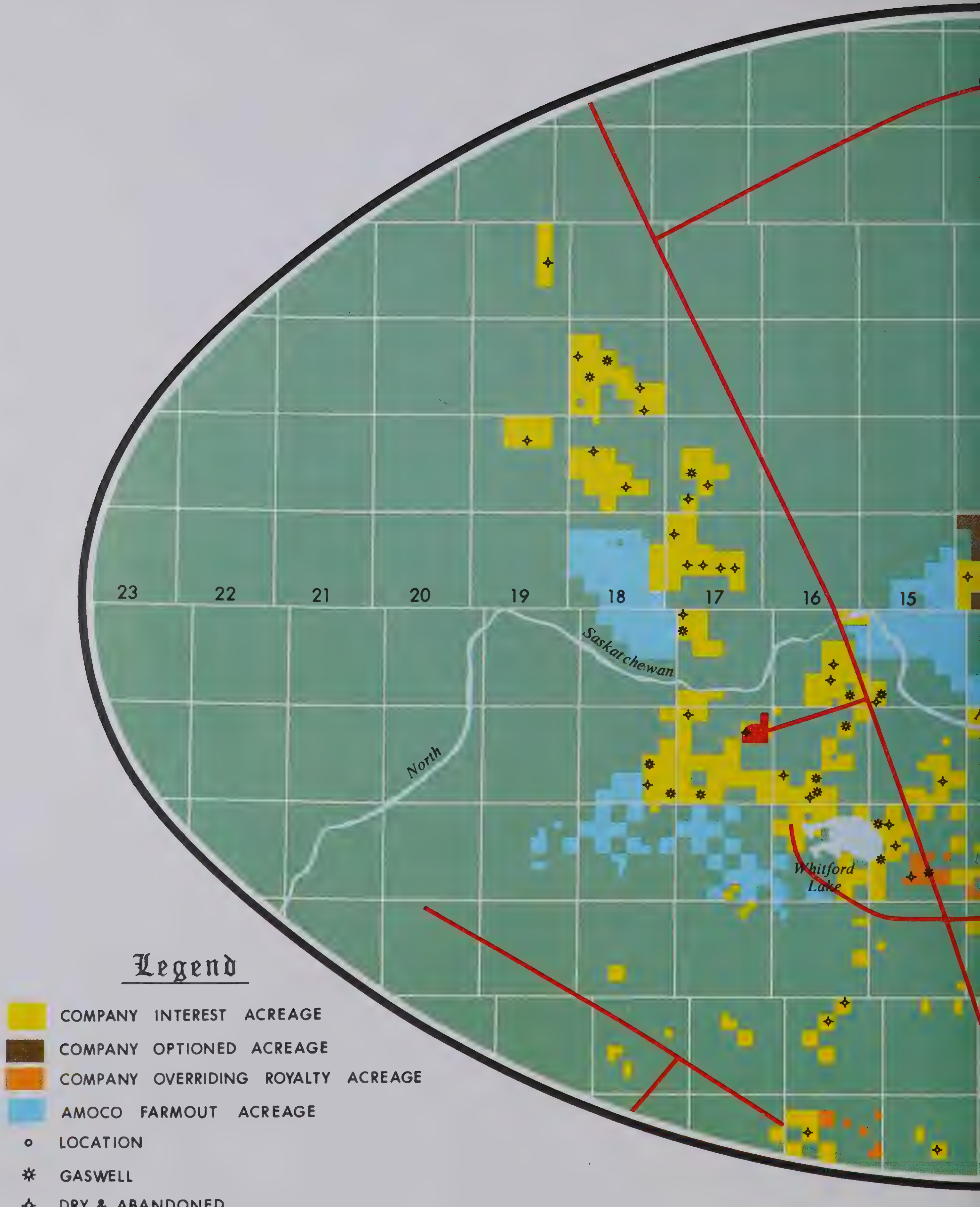
Although the DNBB Limited Partnership carried out drilling operations for gold on a large prospect in northwestern Brazil, the project was abandoned as being non-commercial. In Indonesia, the DNBB group has an interest in a gold prospect on which a shaft is presently being sunk; work and expense on this project is being undertaken by third parties and it is too early to know the significance of the ore body. DNBB also has an interest in a potential silver mine in Mexico which is being worked in association with Mexican partners, and it is possible that the mine can be placed on production in about one year. Other active prospects for DNBB include those in Boliva (tin and gold), Costa Rica (gold), Colorado (silver), and Arizona (silver). The Company's interests in these projects are relatively small since the DNBB Limited Partnership reduces its interest by bringing in third parties to do additional exploration or development work. However, the Company's participation could prove to be important and was acquired at minimal cost.

REAL ESTATE

Due to the depressed real estate market in the U.S., brought about by the recession in the economy, the Company has not sold its Lewisville, Texas property, located 20 miles northwest of Dallas. In December, 1973, the Company purchased 967 acres simultaneously with a purchase of a 496 acre adjoining tract by Xerox Corporation. Xerox has not commenced its planned manufacturing facility and we have not been able to determine when it intends to start construction. The probable sale of our property would be enhanced if Xerox were to commence construction. The 202 acres of lake front property located on the east side of the Garza Little Elm Reservoir (Lake Dallas) is an excellent property with very low carrying charges.

company name

Many of you have inquired as to the origin of the Bridger name. When the U.S. subsidiary, Bridger Petroleum Corporation, was formed several years ago, it was named after the famed mountain man, explorer and guide, Jim Bridger (1804-1881). The recent reorganization required a change of name due to Toronto Stock Exchange regulations and it was decided to choose a name as close to that of the U.S. subsidiary as possible, to avoid confusion when discussing corporate activities with shareholders and the investment community.



HAIRY HILL-
EAST C
Sca

LOW COSSACK
ALBERTA
Miles

Bridger Petroleum Corporation Ltd.
and Subsidiary Companies

land holdings summary

WORKING INTEREST IN OIL & GAS RIGHTS

	Gross Acres	Net Acres
CANADA		
Alberta	794,627	222,419
British Columbia	7,328	2,445
East Coast (Offshore)	634,869	158,717
Ontario	1,475	491
Saskatchewan	7,560	2,976
Canadian TOTAL	1,445,859	387,048
U.S.A.		
Alaska	34,593	10,562
Colorado	8,480	3,328
Louisiana	5,349	5,157
Mississippi	1,980	1,901
Montana	518,289	86,087
Nevada	153,745	76,872
New Mexico	957	437
Oklahoma	54,581	38,603
Texas	16,280	5,105
Utah	21,007	5,777
Wyoming	99,092	39,842
U.S. TOTAL	914,353	273,671
INTERNATIONAL		
British North Sea	91,602	30,534
Dutch North Sea	138,000	11,635
Indonesia	8,000,000	344,000
Spain	376,224	125,407
International TOTAL	8,605,826	511,576
TOTAL Working Interest in Oil & Gas Properties	10,966,038	1,172,295

NET CARRIED INTEREST IN OIL & GAS RIGHTS

	Gross Acres	Net Acres
Arctic Islands	737,286	11,059
Northwest Territories	55,167	2,069
	792,453	13,128
Royalty Interests		
Arctic Islands	6,321,323	(.25% GORR)
Turkey	494,200	(1.523% GORR
Various Canadian and U.S. Lands	532,575	(GORR varying from 1%-15%)
	7,348,098	
Mineral Titles Owned		
Alberta	39,705	39,705
Montana	320	160
	40,025	39,865
Working Interest in Mining Rights		
Colorado	14,000	2,100
Northwest Territories	9,320	3,584
Saskatchewan	2,800	1,400
Utah	14,900	2,235
	41,020	9,319
Lease Applications		
Alaska	75,479	20,790
Equity Interest		
Magnorth Petroleum Ltd. (10.5% equity)	14,230,311	1,494,183

exploration and production summary

DRILLING ACTIVITY

	1975	1974	1973
Gross Wells . . .	109	105	155
Net Wells	37.4	38	63.9
Net Gas Wells .	21.9	15.8	20.7
Net Oil Wells . .	2	—	3.2

PRODUCTION (Net after Royalty)

PRODUCTION	1975	1974	1973
Daily Oil (Bbls)	510	727	576
Yearly Oil (Bbls)	186,259	265,494	210,393
Daily Gas (MCF)*	9,348	5,494	4,087
Yearly Gas (MCF)*	3,412,288	2,005,410	1,491,931

TOTAL RESERVES (Net after Royalty)

PROVEN	1975	1974	1973
Oil (Bbls)	1,722,287	2,313,585	2,789,496
Gas (MCF)* . . .	88,647,360	64,323,000	97,954,000
PROBABLE			
Oil (Bbls)	1,570,392	1,546,000	3,359,000
Gas (MCF)* . . .	31,250,000	26,464,000	37,995,000
TOTALS			
Oil (Bbls)	3,292,679	3,859,585	6,148,496
Gas (MCF)* . . .	119,897,360	90,787,000	135,949,000

*MCF (Thousand Cubic Feet)

CANADIAN RESERVES
As of September 30, 1975

Proven	
Oil (Bbls)	1,446,093
Gas (MCF)*	60,993,734
Probable	
Oil (Bbls)	1,570,392
Gas (MCF)*	31,250,000
TOTALS: Oil	3,016,485
Gas	92,243,734

UNITED STATES RESERVES
As of September 30, 1975

Proven	
Oil (Bbls)	276,194
Gas (MCF)*	27,653,626

No probable reserves were assigned to U.S. Properties.

OIL AND GAS RESERVES

The Company's oil and gas reserves were evaluated by two engineering firms: D & S Petroleum Consultants Ltd. of Calgary calculated the reserves in Canada and DeGolyer and MacNaughton calculated the reserves in the U.S. The combined evaluations forecast future cash flow from proven reserves to be $125,113,369. A value of $6,505,416 was assigned to undeveloped leasehold interests.

Bridger Petroleum Corporation Ltd.
and Subsidiary Companies

consolidated balance sheet
September 30, 1975

	1975	1974
ASSETS		
Current assets		
Cash	$ 240,887	$ 689,658
Deposit certificates	—	697,242
Accounts receivable	3,011,710	2,393,939
Marketable securities, at cost less provision for loss (quoted market value 1975 — $891,628; 1974 — $845,772)	821,114	845,772
Inventory of drilling and production equipment, at lower of cost or net realizable value	717,652	862,914
Prepaid expenses and other	103,797	146,175
	4,895,160	5,635,700
Property and equipment (note 2)	21,804,404	15,956,704
Undeveloped land held for investment (note 3)	10,027,695	9,858,503
Other assets, at cost	656,825	531,973
	$37,384,084	$31,982,880
LIABILITIES		
Current liabilities		
Accounts payable	$ 2,726,970	$ 2,423,547
Accrued interest payable	372,836	537,742
Current portion of long term debt	485,056	635,359
	3,584,862	3,596,648
Long term debt — net of current portion		
Notes payable on land held for investment (note 4)	7,106,531	7,052,226
Production and development loans (note 5)	8,526,290	4,041,118
Convertible subordinated note (note 6)	5,000,000	5,000,000
	20,632,821	16,093,344
Deferred income taxes	347,588	63,662
SHAREHOLDERS' EQUITY		
Capital stock (note 8)		
Authorized		
20,000,000 shares of no par value		
Issued		
3,908,770 shares (1974 — 3,908,603 shares)	13,104,280	13,103,801
Deficit	285,467	874,575
	12,818,813	12,229,226
	$37,384,084	$31,982,880

Approved on behalf of the Board,

A. E. Whitehead, Director

[illegible], Director

consolidated statement of income
Year Ended September 30, 1975

	1975	1974
Income		
Oil and gas sales, net of royalties	$3,491,961	$1,590,760
Royalties	57,480	59,763
Interest	14,245	222,748
Management fees	115,775	380,787
Other	59,110	95,957
	3,738,571	2,350,015
Expenses		
Production	474,049	420,404
Interest	553,203	628,905
General and administrative	659,851	676,625
	1,687,103	1,725,934
	2,051,468	624,081
Depletion	975,889	665,574
Depreciation	347,007	181,612
	1,322,896	847,186
Income (loss) before the following	728,572	(223,105)
Provision for loss due to decline in market value of marketable securities	—	(797,042)
Income (loss) before income taxes	728,572	(1,020,147)
Income tax expense (recovery) (notes 1 and 7)	139,464	(66,579)
Net income (loss)	$ 589,108	$ (953,568)
Net income (loss) per share (note 1)	$ .15	$ (.12)

consolidated statement of deficit
Year Ended September 30, 1975

	1975	1974
Retained earnings (deficit), beginning of year	$(874,575)	$ 78,993
Net income (loss) for the year	589,108	(953,568)
Deficit, end of year	$(285,467)	$(874,575)

consolidated statement of changes in financial position

Year Ended September 30, 1975

	1975	1974
Source of funds		
Funds provided from operations	$ 2,195,930	$ 624,081
Provision for loss due to decline in market value of marketable securities	—	(797,042)
	2,195,930	(172,961)
Capital stock issued	479	89,257
Long term financing proceeds	5,033,641	10,426,600
Proceeds on disposal of property and equipment	1,414,911	739,583
Adjustment to cost of acquisition of undeveloped land	473,497	—
	9,118,458	11,082,479
Application of funds		
Repayment and reclassification of long term debt	494,164	181,347
Acquisition of property and equipment	8,585,507	7,315,904
Acquisition and holding costs of undeveloped land	642,689	9,858,503
Increase in other assets and sundry items	124,852	262,192
	9,847,212	17,617,946
Decrease in working capital	728,754	6,535,467
Working capital, beginning of period	2,039,052	8,574,519
Working capital, end of period	$ 1,310,298	$ 2,039,052

auditors' report

To the Shareholders
Bridger Petroleum Corporation Ltd.

We have examined the consolidated balance sheet of Bridger Petroleum Corporation Ltd. (formerly Houston Oils Limited) and subsidiary companies as at September 30, 1975 and the consolidated statements of income and deficit and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at September 30, 1975 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Calgary, Alberta
March 1, 1976

COLLINS BARROW
Chartered Accountants

notes to consolidated financial statements

September 30, 1975

1. ACCOUNTING POLICIES

(a) PRINCIPLES OF CONSOLIDATION

(i) The consolidated financial statements include the accounts of the Company and all of its subsidiaries. Any excess of initial cost of shares in subsidiaries over the underlying net book value at dates of acquisition has been allocated to the property and equipment accounts and depletion is provided thereon.

(ii) The accounts of foreign subsidiaries have been translated to Canadian dollars on the following basis: Current assets and current liabilities at the rate of exchange in effect at the year end. Other assets and liabilities at the rate of exchange in effect at the date of settlement. Revenue and expense items are translated using average rates of exchange prevailing throughout the period.

(b) OIL AND GAS OPERATIONS

The companies follow the full cost method of accounting for oil and gas operations. Under this concept, all costs, including a portion of administrative and interest expenses, relating to exploration for, and development of, oil and gas reserves are capitalized. Proceeds on disposal of properties are ordinarily deducted from costs without recognition of profit or loss. These capitalized costs are depleted on the unit of production method based on the total estimated proven oil and gas reserves as determined by independent and Company engineers. Interest capitalized for the year ended September 30, 1975 totalled $106,525.

(c) MINING PROPERTIES

The companies follow the practice of capitalizing all acquisition and exploration costs relating to mining properties on a prospect area basis. If a prospect area is subsequently abandoned, all capitalized costs relating to the area are charged to income. Capitalized costs relating to producing properties are depleted on the unit of production method based on estimated recoverable reserves of the area.

(d) UNDEVELOPED LAND HELD FOR INVESTMENT

The companies capitalize the following items as a part of the cost of the land:

(i) Interest on agreements relating directly to the acquisition of the land.

(ii) Real estate taxes.

(iii) Other direct costs including commissions, legal fees and related charges.

Revenue received from the land is deducted from the total cost capitalized.

(e) DEPRECIATION

Depreciation of production and other equipment is provided on a straight line basis at rates designed to amortize the costs over the estimated useful lives of the assets.

(f) INCOME TAXES

The companies follow the tax allocation method of accounting for all timing differences between taxable income and recorded income including differences relative to exploration and development expenditures. Under this method provision for deferred income taxes are made currently on the excess of deductions claimed for tax purposes over the related depletion, depreciation and other charges recorded in the accounts on the premise that such taxes will become payable in future years when recorded charges exceed the amounts available for tax purposes.

(g) EARNINGS PER SHARE

Earnings (loss) per share are calculated on the weighted average number of shares of the Company outstanding during the year. The conversion of the outstanding convertible subordinated note would not be dilutive.

2. PROPERTY AND EQUIPMENT

Property and equipment consists of the following:

	Cost	Accumulated Depletion and Depreciation	Net 1975	Net 1974
Oil and gas properties and equipment including exploration and development costs thereon	$21,166,517	$2,276,152	$18,890,365	$14,447,497
Mining properties including exploration and development costs thereon	485,182	108,137	377,045	377,045
Production and other equipment	3,257,005	720,011	2,536,994	1,132,162
	$24,908,704	$3,104,300	$21,804,404	$15,956,704

3. UNDEVELOPED LAND HELD FOR INVESTMENT

During the fiscal year ended September 30, 1974, the Company, in conjunction with a co-purchaser, Marline of Texas, Inc., acquired two tracts of undeveloped land in Denton County, Texas, comprising 1,159 acres, for cash consideration and assumption of non-recourse notes payable. At September 30, 1975 the Company's carrying cost, relative to its 70% interest was as follows:

957 acres, Lewisville, Denton County	$ 9,482,668
202 acres, Garza Little Elm Reservoir, Denton County	545,027
	$10,027,695

Lewisville Tract

Delay by Xerox Corporation of the development of property contiguous to the Company's property was instrumental in the co-purchasers:

(a) electing not to make note payments due in December, 1975 and concurrently entering into negotiations with the note holders to modify the terms of the outstanding notes, and

(b) filing a law suit against Xerox Corporation on December 9, 1975 claiming breach of contract on the part of Xerox, among other counts, in failure to undertake construction of a manufacturing facility on contiguous property.

Garza Little Elm Reservoir Tract

The Company will maintain its interest in this property under renegotiated terms of note agreements.

4. NOTES PAYABLE ON LAND HELD FOR INVESTMENT

Notes payable on land held for investment represent the Company's 70% interest in the balances outstanding on the following properties:

	1975	1974
Lewisville property	$6,723,569	$6,945,833
Garza Little Elm Reservoir property	382,962	382,962
	7,106,531	7,328,795
Less: Amount included in current liabilities	—	276,569
	$7,106,531	$7,052,226

As outlined in note 3, the Company did not make the December, 1975 payment due on the notes relating to the Lewisville property and is presently renegotiating the terms of the notes.

As of March 1, 1976 the Company has satisfactorily renegotiated the terms relating to approximately 80% of the indebtedness. Based on the revised terms of those notes which have been renegotiated, the Company has not included any portion of the notes as current liabilities.

5. PRODUCTION AND DEVELOPMENT LOANS

The production and development loans are comprised of the following:

	1975	1974
Development loans	$6,447,579	$3,536,141
Prepayment of future gas deliveries	863,767	863,767
	7,311,346	4,399,908
Less: Estimated portion due within one year	485,056	358,790
	6,826,290	4,041,118
Bank indebtedness	1,700,000	—
	$8,526,290	$4,041,118

Development loans and prepayment of future gas deliveries are interest free obligations repayable at various rates from proceeds of production. At September 30, 1975, the Company's banker had issued letters of credit guarantying repayment of development loans in the amount of $6,272,023.

In June, 1976 development loans approximating $5,500,000 will mature. These loans will be repaid with proceeds of a production loan, granted by the Company's banker, secured by the Company's oil and gas properties and repayable over a five year period.

The bank indebtedness is secured by the Company's oil and gas properties and marketable securities. As at September 30, 1975 the Company had an authorized line of credit of $2,700,000. No portion of the indebtedness has been considered current since the Company had not drawn its authorized limit.